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NATIONAL INTELLIGENCE DAILY CABLE

Thursday 19 October 1978 CG NIDC 78/244

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NATIONAL SECURITY INFORMATION

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25X1 National Intelligence Daily Cable for Thursday, 19 October 1978. [redacted] The NID Cable is for the purpose of informing senior US officials.

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[redacted]

USSR: Gas Lift Equipment Contract

25X1 [redacted] *The USSR, after three years of shopping, signed a $200 million to $250 million contract earlier this month with a French-led consortium for gas lift equipment to be used at the Samotlor and Fedorovo oilfields in West Siberia. The contract is reported to depend on French ability to avoid the potential problem of US trade controls by lining up West European - based subcontractors or US-based companies that have obtained appropriate US export licenses.*

25X1 [redacted] Although Soviet petroleum engineers strongly prefer equipment produced in the US, Moscow is seeking an "all-European" supplier package to avoid US export licensing problems. The USSR had been close to signing a contract with a Japanese-led consortium--which included US firms--during the summer but suspended negotiations following the US Government's decision to control the sale of oil and gas equipment to the USSR. The Japanese offer relied heavily on US-based suppliers for two key items--downhole equipment and computer systems.

25X1 [redacted]

25X1 [redacted] Moscow apparently has decided that it must act this year to acquire the gas lift equipment needed to increase oil recovery and to slow the decline in oil output we expect in the early 1980s at the giant Samotlor oilfield. Samotlor is now operating at peak capacity and will provide nearly one-fourth of total Soviet oil output this year. [redacted] 25X1

25X1 [redacted]

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Approved For Release 2005/08/17 : CIA-RDP79T00975A030900010030-5

[redacted]

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CHINA: Steel Industry Resurgence

25X1 [redacted] *China's steel industry is headed for a record year--it will produce about 31 million tons--and is also embarking on a massive program to double capacity by 1985. Peking, however, is unlikely to meet its ambitious target, even with foreign assistance as the keystone of the program.*

25X1 [redacted] China hopes to raise steel production to 60 million tons by 1985 through construction of modern giant steel centers. The first such project, which will add 6 million tons of capacity, is being built by Nippon Steel of Japan near Shanghai. Also, West German and Japanese firms are bidding on a planned 10-million-ton plant in Hopeh Province which will be partially operational by 1985. Other foreign firms are being invited to modernize and expand existing plants.

25X1 [redacted] Enormous foreign exchange costs will be involved. The Nippon Steel plant will cost $3.5-$4 billion. A West German bank has offered to form a consortium to provide a $14.7-billion credit to finance the Hopeh plant. Total hard currency outlays for the program could reach $30 billion.

25X1 [redacted] China will be hard pressed to meet its goals. Enough new capacity will not be available by 1985; transportation bottlenecks and shortages of electric power, coal, and iron ore are sure to plague the program.

25X1 [redacted] The industry's strong performance this year was buttressed by the addition of new capacity, including a 1.5-million-ton blast furnace at Anshan. Maximum use of existing plant and

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equipment could yield another 2 to 3 million tons of output, but further increases will have to await new facilities. [redacted]

25X1 [redacted]

USSR: Electric Power Shortages

25X1 [redacted] *The USSR, facing persistent power shortages, is attempting to restrict use of electricity and heat by imposing punitive rates for use above that planned. The Ministry of Power and Electrification is preparing a schedule of tariffs to be levied on industries for excessive consumption during peak-use periods.*

25X1 [redacted] The revised tariffs are a followup to a Council of Ministers' resolution, adopted last July, requiring that industrial power limits be established between mid-1978 and mid-1979. The tariff for above-limit use is to be set at 10 times the basic rate for electric power and twice the basic rate for heat.

25X1 [redacted] The major strain in the system has been in supplying peak hour power to European Russia. The Soviets were unprepared for the rapid increase in peak load demand caused by growing household use of appliances and unanticipated growth of agriculture power consumption. [redacted] 25X1

25X1 [redacted]

USSR: Larger Grain Purchases

25X1 [redacted] *The USSR could use all of the 15 million tons of grain offered by the US during the bilateral grain consultations concluded last week,* [redacted] 25X1

25X1 [redacted]

25X1 [redacted] Any purchases over the 6 million tons that the Soviets must buy under the Long-Term Grain Agreement would be corn. Moscow is permitted to buy for delivery during the current year of the agreement, October 1978 - September 1979, without prior consultation up to 15 million tons--about the same amount bought in the previous year.

25X1 [redacted] Unless the current harvest is considerably larger than we currently predict, we expect Moscow to purchase 15 million to 20 million tons of foreign grain for delivery through September 1979, largely to satisfy livestock feed requirements. Moscow is in a strong balance-of-payments position, and should be able to afford the $2 billion to $2.6 billion cost necessary to purchase this amount.

25X1 [redacted] the Soviets would have a problem obtaining the hard currency, but this probably reflects debate among Soviet policymakers over how to allocate hard currency rather than immediate balance-of-payments problems. In addition, the Soviets may be expressing their dissatisfaction with recent US legislation making Commodity Credit Corporation credits available to China but not to the USSR. [redacted] 25X1

25X1 [redacted]

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